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FISCAL IMPACT STATEMENT

LS 6924
BILL NUMBER: SB 166

NOTE PREPARED: Apr 2, 2003
BILL AMENDED: Mar 31, 2003

SUBJECT: Distribution of Local Option Income Taxes (LOIT).

FIRST AUTHOR: Sen. Kenley
FIRST SPONSOR: Rep. Cochran

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill extends the rainy day fund loan repayment schedule for Porter County school corporations by one year. The bill changes the method for computing the amount distributed to counties from money received by the Department of State Revenue (the Department) from a County Adjusted Gross Income Tax (CAGIT), County Option Income Tax (COIT), or County Economic Development Income Tax (CEDIT). The bill provides for a transition to the new method for counties in the first several years that a county income tax is initially imposed in the county. The bill requires a supplemental distribution in excess of the certified distribution to be deposited in a civil taxing unit's rainy day fund. The bill repeals: (1) provisions concerning the keeping of three and six month balances in a county's tax account with the state; and (2) a provision requiring a report on account balances for the CEDIT in February of each year.

Effective Date: (Revised) Upon passage; June 1, 2003; July 1, 2003.

Explanation of State Expenditures: (Revised) *Three and Six Month Balances:* Under the bill, the Department would no longer hold three or six month balances on counties with a local option income tax (LOIT). Any impact to the Department would be administrative and could be absorbed in their current budget. The State Budget Agency would also have administrative time in order to implement the provisions of the bill.

Explanation of State Revenues: (Revised) *Porter County School Rainy Day Fund Loans:* Under current law, Porter County civil taxing units and school corporations are allowed to take a 10 year loan from the State Counter-Cyclical and Economic Stability Fund (Rainy Day Fund) established by IC 4-10-18-2. The total amount of loans allowed for all Porter County civil taxing units may not exceed $28 M.

Under the bill, Porter County school corporations would be allowed to delay the start of repayment of loans granted under current law until after June 30, 2004. Additionally, the school corporations would be required to repay the loans within eleven years from the date that the loans were made. Currently, Duneland has three outstanding loans, each in a principal amount of $4.6 M, totaling $13.8 M. Assuming an interest rate of approximately 1.1% (current six month U.S. Treasury Bill interest rate), the state could see a reduction in revenue, due to lost interest earnings in the Rainy Day Fund, by an estimated $185,000 over the life of the loans. The impact would be approximately $12,000 in FY 2004, and $24,000 in FY 2005.

Background Information: The balance of the Rainy Day Fund as of June 30, 2002 was $269.2 M and is estimated to be $278.6 M at the end of FY 2003.

Explanation of Local Expenditures: (Revised) *Porter County School Rainy Day Fund Loans:* Under the bill, Porter County school corporations would be allowed to delay repayment of loans taken from the state Rainy Day Fund until after June 30, 2004 and would be allowed an extra year to repay the principal. *See Explanation of State Revenues*.

Explanation of Local Revenues: (Revised) *Summary:* Under the bill, the Budget Agency would begin calculating LOIT recommendations using actual collections data from the Department of State Revenue instead of projections at 1%.

CY 2005 Certified Distributions: Certified distributions of LOIT for CY 2005 would be based on revenue received from collections of LOIT between tax year 2003 (received in April 2004) to July 1, 2004.

Future LOIT Adoption: A county that adopts a LOIT in the same calendar year that the Department makes a certification would require the Department, with review of the Budget Agency, to adjust the certified distribution of the county to provide for a distribution in ensuing calendar year. The Department would be required to make a full transition to certification of distributions under the proposed method of the bill.

Removal of Account Balances: The bill repeals three month and six month account balances. However, the Department would be able to correct for negative account balances. Distributions would be adjusted for counties with negative balances. Any adjustment could be spread over several years instead of a single year.

The Department could also correct distributions for clerical and mathematical errors made in a previous certification.

Uses: Any extra balance found to exist in a county's account in excess of the amount necessary, would be placed in the county certified distribution in the ensuing year. The excess balances of LOIT revenue received by counties would be as allocated certified shares. Whatever portion of certified distributions received by civil taxing units would be deposited into the civil taxing unit's rainy day fund.

Current distributions of CAGIT are allocated to either Property Tax Replacement Credits (PTRC) or Certified shares. Certified shares are used only by civil taxing units, in part for additional property tax relief and in part for general governmental purposes.

COIT revenue may be used for 1) increased homestead credit, 2) operation of public communications systems and computer facilities districts, 3) operation of public transportation corporations, 4) bonds for certain economic development projects, 5) redevelopment initiatives in Marion County, and 5) distributive shares to civil taxing units.

CEDIT distributions may be allocated as follows: 1) economic development projects and hazardous waste cleanup (in certain counties.) 2) When imposed in conjunction with either CAGIT or COIT, capital projects 3) additional homestead credits.

Background: Each year in July, the State Budget Agency calculates a certified distribution for CAGIT, COIT, and CEDIT for the following year. Under P.L. 178-2002, upon Budget Agency recommendation, the Department determines if an excess balance exists to either a CAGIT, COIT, or CEDIT county's three- or six-month certified distribution balance. If an excess balance exists, the Department must disburse a supplemental distribution in January of the ensuing calendar year.

As of FY 2002, 53 counties have adopted CAGIT with total CY 2003 certified distributions of $321,835,651; 27 counties have adopted COIT with total CY 2003 certified distributions of $462,833,380; and 60 counties have adopted CEDIT with total CY 2003 certified distributions of $146,937,065.

State Agencies Affected: Department of State Revenue, State Budget Agency; State Board of Finance.

Local Agencies Affected: Counties with a Local Option Income Tax.

Information Sources: Tom Conley, Department of State Revenue, David Dukes, State Budget Agency; Dan Bastin, Office of the State Auditor; State Budget Agency: *General Fund, Property Tax Replacement Fund, and Rainy Day Fund Summaries FY ending June 30, 2002*.

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